Exhibit B - Bid Results Evaluation

Los Osos Wastewater Project
Collection System Pump Stations
August 21, 2012

The Engineer's Estimate is provided by the design engineer as their opinion of the probable construction cost that will be submitted by bidders for the contract. The Engineer's Estimate provides the owner with an indication of whether a project design is within budget and allows an opportunity to adjust the design before soliciting bids. It also provides a planning level guide for potential contractors who are considering whether to prepare a bid for a project. When actual bids received from contractors significantly differ from the Engineer's Estimate, several questions are then addressed by staff, including the following:

- Can the Project be constructed based on the actual low bid and the actual funds established in the project budget (i.e. notwithstanding the Engineer's Estimate)?

- Do the bids received from all bidders indicate possible bidder improprieties (i.e. collusion, etc.) that necessitate rejecting all bids?

- Does the evaluation of the bids identify design issues that suggest a redesign and re-bid would result in lower bids significant enough to offset project delays that would result?

- To what extent do design options exist to reduce the scope of the project and still meet its purpose and comply with regulatory conditions and requirements?

- Why does the Engineer's Estimate significantly differ from the low bid?

Engineer's Estimates are developed based on a combination of unit cost data from similar types of projects and on specific project requirements. As a result, the ability of the design engineer to predict contractor bids is dependent on several factors. The source data used by the design engineer is the foundation to the Engineer's Estimates. The ability of the design engineer to predict the contractor's perception of project risks, and how those risks compare to the source data projects, requires an adjustment based on professional judgment. The degree to which regional differences may impact contractor bids must also be considered by the design engineer. For example, if the source data is derived from projects constructed in major metropolitan areas, and the current project is being developed in a rural area, then the design engineer must also consider whether adjustments to source data are needed to reflect regional differences. The competitiveness of the bidding environment can also be a significant factor.

The Engineer's Estimate for the Pump Stations contract is $6,521,000 and the low bid is $8,676,850, which is approximately 33% above the Engineer's Estimate. As a result, staff and the design engineer evaluated the bids in an effort to determine why the bids were higher than the Engineer's Estimate and whether lower costs may be realized if

the contract were re-advertised for bids. The primary reason cited for the lower Engineer's Estimate is that an aggressive contracting market was assumed, which would keep mark-ups for contingencies, overhead, and risks to a minimum. However, evaluation of the bid results indicates that although the bidding environment is still competitive, the bids were not as aggressive as what is being experienced on other projects.

In developing estimates, the design engineer uses industry standard estimating software to develop unit costs. These unit costs are well established from hundreds of sources and provide a reasonably precise estimate of hard construction costs. However, the size, complexity, and location of an individual project must also be considered. For the Pump Stations contract, the following factors likely resulted in higher bids due to mark-ups for contingencies, overhead, and risks.

- The bidding climate was not as competitive as anticipated, with only 5 responding bidders.

- San Luis Obispo County and Los Osos is far from metropolitan areas where many potential contractors for this type of work are based. Many potential bidders could not expect to efficiently coordinate this work with other, ongoing or future jobs.

- The two and one-half year duration of the contract, with much of the materials not needed until the later part of the contract creates risk of material cost escalation.

- Project permit conditions include performance related criteria that increases contractor risk.

Review of the overall bid results supports the assumption that higher overall bid prices are related to increased mark-ups for contingencies, overhead, and risks, which were spread among certain individual bid items. As shown on the Pump Stations Bid Results (Attachment "A"), prices lower than the Engineer's Estimate were received on 8 of the 12 bid items from at least one of the bidders. These items are highlighted in yellow. This indicates that the unit prices in the Engineer's Estimate were relatively accurate for most line items, but that each bidder applied mark-up factors to one or more bid item based on what each contractor believes is needed to cover their overall costs to construct the project while considering its risks and requirements. Item #11, Standby Power Buildings" is the highest cost bid item and provided the largest range of bid prices, at over $3.5 million. The Coastal Development Permit requirement to maintain noise levels from the Standby Power Buildings at 45 decibels or less is a contractor risk item that likely influenced the variability of this bid item and indicates that there was a high level of uncertainty, even among contractors.

In consideration of the low bid exceeding the Engineer's Estimate and the variability of individual bid items, the bids were evaluated by staff and the design engineer to answer the questions listed above, in the opening paragraph. The underlying purpose of this evaluation is to determine whether design changes or a new bidding process are warranted. The rejection of all bids and a re-advertisement of the contract are within

your Board's discretion. In this case, however, a new bidding process is not recommended for the following reasons:

- The low bids and overall construction costs for the Collection System are well within the established Project budget.

- The overall bid prices of the five bidders are competitively spread over a reasonable cost range relative to each other and do not show any indication of anomalies or improprieties.

- The bid results show the three low bidders clustered within a relatively narrow price range, which indicates that the low bid is representative of the Project's scope and complexity and provides no indication that lower bids would be received in a subsequent bidding process.

- Re-advertisement of the contract would result in increased costs for administration and construction management, delay project completion, and potentially lead to increased bid prices due to a less competitive bidding environment.

- The design is based on a narrowly defined Project description and strict mitigation requirements established in the Project permits and provides little latitude for design changes.

In summary, the factors considered by each bidder in preparing their bids are based on a number of factors, including their planned means and methods of construction, material and labor costs, market competition and project risks. In the case of this contract, it appears that the estimated unit costs are relatively accurate, but that bidders were not as aggressive as anticipated and added costs to cover contingencies, overhead, and risks beyond what was estimated by the design engineer.

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